

DRAFT Proposal for the CLEW Public Hearing on December 13

By Governor Inslee, Senator Ranker and Representative Fitzgibbon

OVERVIEW

- The Climate Legislative and Executive Workgroup is charged by law “to recommend a state program of actions and policies to reduce greenhouse gas emissions, that if implemented would ensure achievement of the state's emissions targets in RCW 70.235.020.”
- From the technical evaluation, the Workgroup has learned that, despite significant progress, our statutory carbon pollution limits will not be met without additional action.
- We find that action will be needed on multiple fronts – both to ensure that the limits are met, and to fairly allocate the responsibility for action. We also find that actions need to start soon, to allow the time needed for more gradual changes.
- To meet the Workgroup’s statutory obligation, we have identified a set of actions that will secure the additional emission reductions by the required dates, and are recommending that the State move forward to design and implement these actions.
- The law further calls for prioritizing actions based on both environmental and cost effectiveness (i.e., ensuring the greatest amount of environmental benefit for each dollar spent), requiring consideration of the costs, benefits, and results of the proposed actions.
- Based on the information reviewed by the Workgroup, we believe these policies are the most cost effective tools we have available to meet our state emission limits. As we move forward, it will be important to design our actions in a way that maximizes the benefits and minimizes the costs of implementation, by directly considering our emissions and energy sources, and our businesses and jobs.
- Most importantly, we believe action is needed now, to do our part in preventing climate change from becoming worse, while concurrently capturing the job growth opportunities of a clean energy economy. This is a tall order, but one we are confident must, and can, be achieved.

A LEGISLATIVE, ENVIRONMENTAL AND ECONOMIC OBLIGATION

The statutory charge to the Climate Legislative and Executive Workgroup is “to recommend a state program of actions and policies to reduce greenhouse gas emissions, that if implemented would ensure achievement of the state's emissions targets in RCW 70.235.020.” The job of the Workgroup is to produce for the Washington State legislature a report recommending specific

actions that can ensure our state's success in meeting our goals to reduce carbon pollution. Washington State deserves, and this legislation requires, action, this day, in this place, by this Workgroup.

This action is needed to do our part in protecting our environment. The degradation of our beautiful state caused by carbon pollution is both profoundly threatening to the basic environmental systems of our home state and is now causing real world, real time damage. The environment won't wait, and neither should we.

We must also act to protect our economy, where the dangers of carbon pollution threaten the basic resources that sustain our economy. No state is more blessed, so no state has more economically to lose: the best oyster industry is now the most threatened; the best apple industry is now the most sensitive to loss of irrigation; and the best forest products industry is now the most endangered by fire.

Washington cannot live on software alone. We cannot allow our food, our fiber, and our fish that form the historic and future legacy of Washington state to be threatened because we did not act to protect them.

We cannot allow ourselves to think that clean environment actions cause a loss of jobs. Throughout our nation's history, we have heard past predictions that common sense measures being taken to protect our people's health would have negative economic consequences.

These predictions were wrong. Mileage standards did not keep us from having cars to drive. Clean air laws did not prevent us from having access to plastics. These predictions were wrong because they often overestimated the costs of compliance with environmental laws and often underestimated the capacity of our innovative economy to produce new technologies that will respond to the demand for clean industrial processes.

The same creative talent that built the world's first commercial jet, designed the world's most dominant software, and invented the first artificial kidney machine will respond to the "go" signal in the climate change fight and again prove the predictions wrong.

The best evidence of economic growth that can be generated by clean energy is found throughout Washington State today: in Arlington, at the Outback Energy Company, where they produce clean energy systems; in Moses lake, where Renewable Energy Corporation makes the heart of solar cells; and in Seattle where the western hemisphere's two largest producers of energy efficiency are now changing the world.

In our state, for these reasons, a healthy environment and a healthy economy are not enemies, they are necessary partners. A clean environment is good economics.

In a larger sense, taking action on climate change is much more than just a legislative responsibility, it is an affirmation of just who we are in Washington as a people. We are a scientifically literate people and will act in accordance with the settled science. We are an optimistic people who can be just as successful in clean energy as we have been in aerospace and software. And we are, in the deepest way a people can be, committed to preserving the natural heritage of our state that is the jewel in the crown of this world. Simply put, we choose to take action in Washington because we are Washingtonians.

Legislators on both sides of the aisle should rally next year and design a suite of carbon pollution prevention bills that meet the specific needs and circumstances both of our environment and our industries. We have reviewed the broad scope of policies that have been put to use in many jurisdictions around the world and we have proposed a set of them below to develop and implement in Washington. We don't have to invent the wheel here, just refine it to fit our state, and commit to finding solutions. We will do a thorough evaluation of their economic impacts, both positive and negative, before final decisions are made on how we will implement these policies.

We know this can be done because we Washingtonians have done it. We did it when we passed initiative 937, the renewable energy initiative. Predictions that it would cripple our economy and kill jobs were wrong. Instead, we have seen the creation of thousands of jobs associated with the burgeoning wind industry, from ironworkers who have installed the turbines to engineers who designed them, to electricians who maintain them.

Why should we wait when we have seen caps on carbon pollution established in nine northeast states and California and seen their economies do just as well as ours? Why should we wait when Spain has wind turbines off its shorelines producing jobs and clean electricity when the technology itself was invented in Bellevue Washington at Principle Power Company? Why should we wait when the world's most durable solar panel, the world's largest producer of energy efficiency services and the world's largest producer of carbon fiber material for electric car carbon fiber bodies all come from Washington State? Why should we wait when we have the potential to create thousands of more jobs for our citizens?

When we establish that carbon belongs in our airplane wings and our car bodies, and not in Washington's skies, our economy will again lead the world as it has so many times in the past.

There is greatness in Washington State, greatness in our engineers, greatness in our computer scientists and greatness in our machinists, electricians and all those who make us a dynamic economy. But our ultimate greatness, are our children, our grandchildren and all those generations who will be lucky enough to call Washington state home. How we act to protect and secure that home will define us as a generation and as a state.

PROPOSED ACTIONS TO MEET WASHINGTON'S CARBON POLLUTION STATUTORY LIMITS

To meet the statutory charge, we propose the following five programs be developed and implemented in Washington.

First, we should establish a cap on carbon pollution emissions, one that sets binding limits that reduce emissions over time, and institute the necessary market mechanisms to meet the cap in the most effective and efficient manner possible. Establishing a cap on carbon pollution emissions is the most certain and fair way to tackle this challenge, and will provide the foundation for other actions.

This cap and market program should focus on the larger emission sectors, such as transportation, buildings and electricity, as they account for most of the forecasted Washington emissions. The program should include allowance policies, cost containment and other measures that help offset the cost impact to consumers and workers, protect low-income households, and assist energy intensive, trade-exposed businesses in their transition away from carbon-based fuels. It should also establish a clear framework for oversight and regulation of the markets.

Second, we should adopt measures to reduce our use of electricity generated by coal-powered facilities in other states (*aka* "coal by wire"). We should seek to negotiate agreements with key utilities and others to reduce and eliminate the use of electrical power produced from coal over time. Though coal is used for a relatively small share of our electricity, it generates most of the carbon pollution emissions from this sector.

Third, we should establish an energy smart building program, to include promotion of new financing, incentives and support. The program should encourage new buildings to be as energy-neutral as possible, with advanced envelopes, efficient appliances, on-site generation, and smart controls. For existing buildings, the program should establish cost-effective energy-efficiency retrofits as the norm, not the exception, with a system of support that works for businesses and homeowners. We know energy efficiency is one of the most cost effective ways to reduce emissions, reduce costs, increase our productivity and competitiveness, and accelerate the creation of thousands of local jobs.

Fourth, we should take actions to help finance the use of clean energy, to include dedicated and sustained funding to help our research institutions, utilities and businesses develop, demonstrate and deploy new renewable energy and energy efficiency technologies. These technologies will help reduce carbon pollution emissions, grow the state's economy and maintain our global competitiveness.

And fifth, we should adopt measures that will modernize our system for transporting goods and people, to increase efficiency and reduce costs and emissions. In addition to incentives for the purchase of clean cars and accelerating the use of cleaner fuels, we need to improve how we plan and fund our transportation system. Our land use plans should incorporate climate change and better connect land use and transportation plans. We should also implement programs to secure broader implementation of multimodal transportation systems, and should prioritize investments in choices that reduce carbon emissions, such as transit.

PROGRAM DESIGN CONSIDERATIONS

To guide the design and implementation of the above programs, we propose the following design considerations. At a minimum, the program should:

- be fair in allocating responsibility to sources
- be as effective as possible, in terms of both emissions and costs
- prevent any loss of jobs and shifting of emissions to out of state sources (“leakage”), to the extent possible
- provide clear accountability for, along with appropriate flexibility in, compliance,
- consider the costs of implementing each program component on Washington businesses and households, and provide appropriate measures to address the needs of small businesses, low income families, and industries that are most exposed to competitive disadvantages, and
- provide for ongoing monitoring, evaluation and adjustment of the program, as needed to secure benefits and minimize unintended consequences.

ECONOMIC CONSIDERATIONS

Based on the information reviewed by the Workgroup, we believe the above policies are the most cost effective tools we have available to meet our state emission limits. As we move forward, it will be important to design our actions in a way that maximizes the benefits and minimizes the costs of implementation, by directly considering our emissions and energy sources, and our businesses and jobs. This will require engaging our experts, businesses, citizens in our next steps.

The Workgroup considered the costs and benefits of similar programs in other states and countries, and found a wide range of possible costs and benefits, depending on how a policy was applied and what assumptions were used in the analysis. Some of the studies brought forward were outdated or not fully applicable to Washington, and some did not reflect cost containment measures or lessons learned through implementation.

Many past studies have focused primarily on evaluating the costs and cost-effectiveness of mitigation measures, and did not look at the potential energy, environmental, and human health benefits of climate change mitigation policies. As an example, studies summarizing the

costs of acquiring energy conservation have not always reported the benefits of conservation in reduced energy usage and reduced need for new energy sources.

Several programs implemented in other jurisdictions have demonstrated the opportunity for positive economic outcomes:

- Cap and trade programs implemented in the European Union have achieved GHG reductions at significantly lower costs than predicted.
- An economic study done for RGGI States in 2011 quantified the economic benefits from implementation of a multistate regional greenhouse gas initiative, concluding that the program would result in regional economy gains of more than \$1.6 billion in economic value added, utility customer savings of \$1.3 billion over the next decade, and 16,000 jobs created across the region.
- British Columbia was able to decrease GHGs by 4.5% from 2007 to 2010 while at the same time their GDP grew by 4.4%, and the province saw a 48% increase in clean tech industry sales.

The analysis most relevant to Washington was conducted by ECONorthwest (2009). The results of the analysis indicated that the WCI cap and trade strategy, if implemented as designed, would result in a net increase of 19,300 jobs and increased economic output of \$3.3 billion in Washington State by 2020.

A complete picture of the economic implications of climate change to the state must also consider the costs of inaction. Studies conducted by the University of Oregon found that, absent additional action to mitigate the impacts of climate change, each household in Washington will pay an additional \$3,633 each year by 2020 (2008 dollars) – a total cost to the state is almost \$10 billion by 2020. These costs come from a wide range of predicted impacts – including irrigation and hydropower impacts from lost snowpack and natural water storage, increased public health-related costs, increased energy costs (increased demand and reduced hydropower supply), increased wildland fire costs, and increased coastal and storm damage.

Rather than rely on studies conducted for other states, we will need to conduct our own economic analysis, of a program designed to work for Washington, going forward. That information will be far more useful than highlighting studies -- or excerpts from studies -- that were conducted for other programs in other jurisdictions.

Additional analysis of the costs and benefits of these policies for Washington can be used to refine the policies, and to put in place actions to mitigate impacts that are not acceptable. This will ensure a cost effective and fair program, one that will both meet our carbon pollution emission limits and improve the economic conditions for Washington businesses and citizens.